

Message Text

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SUBJECT: SALES PROBLEMS OF TEXTILE INDUSTRY

REF: ISLAMABAD 2772

SUMMARY: COTTON TEXTILE INDUSTRY NOW FACED WITH SERIOUS PROBLEM OF SLACK SALES AND MOUNTING INVENTORIES OWING REFUSAL GOP MATERIALLY REDUCE HEAVY EXPORT TAX IN ORDER MAKE EXPORTS PROFITABLE IN SAGGING WORLD MARKET. END SUMMARY

1. COTTON YARN AND CLOTH SALES IN INTERNATIONAL MARKETS HAVE BEEN DECLINING SINCE OCTOBER 1973. WHEN WORLD PRICES WERE INCREASING GOP IMPOSED STIFF EXPORT DUTY OF 40 PERCENT ON COTTON YARN TO SOP UP "EXCESS" PROFITS. NOW THAT WORLD MARKET PRICES ARE DECLINING GOP IS RELUCTANT LOWER DUTIES. CONSEQUENTLY COTTON YARN EXPORTS HAVE DECREASED SHARPLY. PROBLEM HAS NOW REACHED "CRISIS" PROPORTIONS ACCORDING TO RECENT PRESS REPORTS, WHICH NOTED FIVE KARACHI TEXTILE MILLS SHUT

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DOWN IN RECENT WEEKS AND OTHERS HAVE CUT BACK PRODUCTION

RESULTING IN LAY-OFFS OF SOME 8,000 WORKERS. IN RESPONSE TO SITUATION GOP RECENTLY REDUCED COTTON YARN EXPORT DUTY FROM 40 PERCENT TO 35 PERCENT. HOWEVER INDUSTRY SPOKESMEN STATE REDUCTION INSUFFICIENT TO ENABLE EXPORT WITHOUT LOSS.

2. OFFICIAL GOP STANCE UNSYMPATHETIC TO COMPLAINTS TEXTILE INDUSTRY. ACCORDING KARACHI PRESS, FINANCE MINISTER MUBASHIR HASAN TOLD NATIONAL ASSEMBLY MARCH 26 THAT APPROXIMATELY 100 MILLION DOLLARS WORTH OF COTTON YARN WAS BEING "HOARDED" BY TEXTILE MILL OWNERS INSTEAD OF BEING EXPORTED. OTHER GOP CRITICISMS INCLUDE CLAIM THAT INSUFFICIENT LOW-PRICED "UTILITY" CLOTH BEING MADE AVAILABLE FOR LOW PAID WORKERS AND THAT, ALTHOUGH COST OF RAW COTTON HAS DECREASED RECENTLY, THERE HAS NOT BEEN A CORRESPONDING DECREASE IN PRICE COTTON CLOTH. RESOLUTION OF "CRISIS" BEING DISCUSSED AT PRESENT IN ISLAMABAD BY GOVERNMENT OFFICIALS WHO ARE MEETING WITH DELEGATION FROM TEXTILE INDUSTRY.

3. INDUSTRY SOURCES HAVE CONFIRMED THAT SOME OLDER MILLS IN KARACHI WHICH ARE SHORT ON CASH RESERVES HAVE BEEN LAYING-OFF WORKERS SINCE THEY ARE UNABLE TO MEET PAYROLLS OWING MOUNTING INVENTORIES OF YARN. GOP POLICY TO LIMIT CREDIT PREVENTED BANKS FROM OFFERING LOANS TO MOST COTTON MILLS. SOURCES ALSO CONFIRM COTTON YARN EXPORTS ARE DOWN CONSIDERABLY. ONE SOURCE STATES COTTON YARN EXPORTS IN JANUARY/FEBRUARY 1974 WERE 60 PERCENT LESS THAN DURING CORRESPONDING PERIOD IN 1973. THESE SOURCES BELIEVE FURTHER REDUCTION OF EXPORT TAX FROM 35 PERCENT TO ABOUT 25 PERCENT WILL BE NECESSARY BEFORE PAK YARN CAN AGAIN BE SOLD ON THE WORLD MARKET WITHOUT LOSS TO MANUFACTURER, GIVEN HIGH PRICE PAID FOR RAW COTTON STOCKS AFTER FLOOD SCARE LAST FALL.

4. PRESS REPORTS ON MARCH 30 STATE THAT FOLLOWING A MEETING WITH REPRESENTATIVES OF TEXTILE INDUSTRY MARCH 29, MINFIN MUBASHIR HASAN ORDERED A REDUCTION OF MARGIN REQUIREMENTS FOR BANK LOANS TO TEXTILE FIRMS FROM 50 TO 25 PERCENT, THEREBY ALLOWING TEXTILE MANUFACTURERS TO BORROW UP TO 75 PERCENT OF THE VALUE OF YARN PRODUCED. MILLOWNERS HOWEVER SEE THIS AS ALLOWING ONLY TEMPORARY RELIEF FROM FINANCIAL SQUEEZE BUT NOT SOLUTION TO LONG TERM PROBLEM OF BEING NON-PRICE COMPETITIVE IN WORLD MARKETS.

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TM COMMENT: PRIMARY CAUSE PRESENT PROBLEM IS THAT COTTON MANUFACTURERS RESORTED TO PANIC BUYING OF RAW COTTON AT HIGH PRICES AFTER 1973 FLOODS FEARING GREATER FLOOD LOSSES THAN IN FACT EVENTUATED. THESE MANUFACTURERS NOW UNWILLING REDUCE THEIR PRICES TO PRESENT WORLD MARKET LEVEL AT WHICH, AFTER PAYING 35 PERCENT EXPORT TAX, THEY CLAIM THEY WOULD BE SELLING AT A LOSS. FACT THAT CURRENT PRICES OF RAW

COTTON ARE LOWER THAN SIX MONTHS AGO CONSIDERED IRRELEVANT BY MILL OWNERS WITH HIGH COST INVENTORY ON HAND, DESPITE CLAIMS OF GOP THAT CLOTH AND YARN PRICES SHOULD DECREASE WITH RAW COTTON PRICES.

6. STILL NOT CLEAR WHETHER GOVERNMENT WILL ACCEDE TO MANUFACTURERS' REQUEST FOR FURTHER REDUCTION IN THE EXPORT DUTY OR WHETHER THE MANUFACTURERS WILL BE FORCED TO SELL THEIR PRODUCTION AT LOWER PRICES AND SUFFER LOSSES. TEXTILE INDUSTRY SOURCES BELIEVE GOP WILL EVENTUALLY SEE LOGIC THEIR POSITION AND LOWER EXPORT TAX TO 25 PERCENT. ALTHOUGH OUR BUSINESS CONTACTS HAVE NOT MENTIONED POSSIBILITY OF GOP USING THESE PROBLEMS AS EXCUSE FOR TEXTILE NATIONALIZATION, RECENT EVENTS SEEM TO US SOMEWHAT REMINISCENT OF THOSE IN AUGUST-SEPTEMBER 1973, PRECEDING NATIONALIZATION OF THE VEGETABLE GHEE INDUSTRY. WE ALSO NOTE PRIME MINISTER BHUTTO'S MOST RECENT ASSURANCE CONCERNING NON-NATIONALIZATION (SEE REFTEL) WAS CONTINGENT ON "THE AVAILABILITY OF CLOTH TO THE COMMON MAN AT REASONABLE PRICES WHICH SHOULD BEAR RESONABLE RELATIONSHIP TO THE PRICE OF PRINCIPAL RAW MATERIALS".

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